Public Employees Health Program

A DISCRETE COMPONENT UNIT OF THE STATE OF UTAH
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT AND REQUIRED SUPPLEMENTARY INFORMATION
For the Periods Ended December 31, 2014 and 2013

Larson
CERTIFIED PUBLIC ACCOUNTANTS

PUBLIC EMPLOYEES HEALTH PROGRAM

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Larson
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Utah State Retirement Board
Public Employees Health Program:

We have audited the accompanying financial statements of **Public Employees Health Program** (the Program) as of and for the periods ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of **Public Employees Health Program** as of December 31, 2014 and 2013 and the changes in financial position and cash flows thereof for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Period

The Program changed fiscal year ends from June 30 to December 31 of each year, as discussed in Note 1 to the financial statements. Accordingly, the comparative figures for the statements of operations and reserve balances, statements of cash flows, and related notes are for the six months from July 1, 2013 to December 31, 2013.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9 and the 10 year loss development schedule on pages 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ten Year Loss Development Schedule

The Program is transitioning into the ten year loss development schedule, see required supplementary information paragraph above. The Program will begin with five years of data and build upon that data from year-to-year until a full ten years is presented in accordance with GASB No. 30, Risk Financing Omnibus, an amendment of GASB Statement No. 10.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2015, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Larson & Company PC

Salt Lake City, Utah
May 12, 2015

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Period Ended December 31, 2014
(Unaudited)

The management of Public Employees Health Program (PEHP) presents the following discussion and analysis of the financial statements for the year ended December 31, 2014. PEHP is authorized and created under Title 49, Chapters 20 and 21, of the Utah Code to organize and administer self insurance risk pools for employee benefits for the state, its educational institutions, and political subdivisions.

PEHP, as a trust organization, does not own any assets, have any liabilities, or earn income. All accounting transactions, including PEHP expenses, are recorded or allocated to the various risk pools. The results of operations do not flow to "Net Assets" as reported by most governmental entities, but to "Contingency Reserves" that are held on behalf of the participating employers. Unlike other business-type activities, a "Statement of Revenues, Expenses, and Net Assets" is not used to report the results of operations. They are reported in the "Statement of Operations and Reserve Balances". This is consistent with the statute that created PEHP, to organize and administer funded self-insurance risk pools. PEHP does not report the various risk pools as separate funds. Therefore, the risk pool reporting is provided as schedules in the supplemental information.

The long-term disability, term life, retiree life, and death benefit lines of business, and the Medicare supplement and reinsurance risk pools are singular risk pools in which all participating employers share the risk. The medical and the dental lines of business are divided into various risk pools of single or multiple employer pools. Including the Medicare supplement and reinsurance risk pools, the medical line of business encompasses 90.16% of PEHP's benefit expenses. Dental accounted for 4.37% leaving 5.47% for all of the other lines business in total.

PEHP is a "public entity risk pool" as defined by GASB Statement #10, encompassing three of the four types of pools identified. Risk is shared in the long-term disability, term life, retiree life, and death benefit lines of business, the Medicare supplement program and in the medical and dental risk pools for the Utah School Board Association and the Local Government Risk Pool. Catastrophic reinsurance is purchased from private insurance companies through the "Reinsurance" risk pool and the term life program. PEHP acts as a third party administrator and provides administrative services only and holds no significant contingency reserves for Jordan School District.

GASB Statement #10 provides guidelines for recording and reporting of revenues, expenses, liabilities, assets, and specified supplementary information. PEHP records transactions according to these guidelines. Given the short term nature of PEHP's lines of business, the required supplementary information presented is deemed sufficient to meet the principles of GASB Statement #10.

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Period Ended December 31, 2014
(Unaudited)

FINANCIAL CONDITION

PEHP works with the employers to set medical and dental premium rates that will maintain appropriate reserve levels for each risk pool. The criteria vary depending on the type of risk pool. New risk pools provide an initial deposit or establish reserves over time.

Total contingency reserves increased by $9.29 million as follows:

- The medical program contingency reserves increased by $13.36 million.
- Contingency reserves increased by $.36 million in the dental program.
- The long-term disability program realized a $3.08 million decrease in contingency reserves.
- The term life and retiree life had contingency reserve increases of $5.83 million and $.30 million respectively. The death benefit programs contingency reserve decreased by $7.47 million.

Chapter 20 of Title 49 of the Utah Code requires that employers or agencies, responsible for the insurance risk in a PEHP pool, cure any deficiency in the actuarially recommended and board approved reserves. As of December 31, 2014 and December 31, 2013, there were no risk pools with contingency deficits.

FINANCIAL STATEMENTS

The financial statements for PEHP are prepared on the accrual basis of accounting in accordance with the generally accepted accounting principles in the United States, as promulgated by the Governmental Accounting Standards Board. PEHP is reported as a discrete component unit of the State of Utah. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the footnotes for more information.

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Period Ended December 31, 2014
(Unaudited)

ASSETS	6/30/2013	12/31/2013	12/31/2014	Dec 13 to Dec 14 Increase (Decrease)	Percent Increase (Decrease)
Cash, investments & receivables	$ 356,049,675	$ 377,857,298	**$ 393,573,618**	$ 15,716,320	4.16%
Capital assets	366,253	345,684	**277,048**	(68,636)	-19.86%
Total assets	$ 356,415,928	$ 378,202,982	**$ 393,850,666**	$ 15,647,684	4.14%
LIABILITIES AND RESERVES					
Claims and other	$ 89,390,052	$ 89,438,467	**$ 91,733,922**	$ 2,295,455	2.57%
Life and long-term disability	71,898,786	72,899,392	**76,957,891**	4,058,499	5.57%
Total liabilities	161,288,838	162,337,859	**168,691,813**	6,353,954	3.91%
Contingency reserves	195,127,090	215,865,123	**225,158,853**	9,293,730	4.31%
Total liabilities and reserves	$ 356,415,928	$ 378,202,982	**$ 393,850,666**	$ 15,647,684	4.14%

Financial Analysis

- The total of cash and investments increased by $8.34 million due to an increase in contingency reserves. Premiums receivable increased by $4.50 million due primarily to the timing of the State's last pay period of the year in relation to the year end. Rebates and other receivables increased by $5.06 million due to increases in pharmacy rebates, pharmacy guarantees and federal subsidies receivable.

- Capital assets include computers and office equipment. Asset retirements and the increase in accumulated depreciation exceeded the additions of new assets.

- Total liabilities increased by $6.35 million due primarily to a decrease in the security lending liability.

- Long-term liabilities are life and long-term disability benefit reserve liabilities. The long-term disability reserves are calculated using a discount rate and an inflation rate that are consistent with the average of the last ten years of actual experience. The discount rate of 3.00% represents the expected long-term average rate of return on investments. The inflation rate of 2.5% is the expected "cost of living" increases to be given to long term disability benefit recipients. Long term disability benefit reserves increased by $4.20 million and life insurance benefit reserves decreased by $.14 million.

- Premium and fee income annualized for December 31, 2014 increased by $7.46 million, due primarily to increases in medical rates and the addition of new business.

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Period Ended December 31, 2014
(Unaudited)

- Investment income increased by $1.31 million. The yield of instruments held in the Dodge & Cox (D&C) managed portfolio was 4.0% for calendar year 2014. Total investment income (investment yield plus or minus adjustments to market value) for the year ended December 31, 2014 was $10.76 million for an overall return of 4.00%. The benchmark used to measure the D&C performance is Barclays Capital Intermediate Government/Credit Index. For the calendar year, this index had a rate of return of 3.97%, whereas the return net of fees for the D&C managed portfolio for the year was 3.10%.

- Insurance benefits annualized for December 31, 2014 increased by $33.83 million. This was due primarily to medical inflation, higher utilization and an increase in reinsurance rates.

REVENUES	6/30/2013	12/31/2013	12/31/2013 (Annualized)	12/31/2014	Increase (Decrease) 12/31/2013 (Annualized) to 12/31/2014	Percent Increase (Decrease)
Premiums and fees	$ 524,147,838	$ 271,128,558	**$ 542,257,116**	**$ 549,719,681**	$ 7,462,565	1.38%
Investment income	4,180,186	4,720,688	**9,441,376**	**10,755,334**	1,313,958	13.92%
Total revenues	528,328,024	275,849,246	**551,698,492**	**560,475,015**	8,776,523	1.59%
EXPENSES						
Insurance benefits	482,590,580	239,889,535	**479,779,070**	**513,608,247**	33,829,177	7.05%
Administrative and other expenses	30,292,454	15,221,678	**30,443,356**	**37,573,038**	7,129,682	23.42%
Total benefits and expenses	512,883,034	255,111,213	**510,222,426**	**551,181,285**	40,958,859	8.03%
Revenues over (under) benefits and expenses	15,444,990	20,738,033		**9,293,730**		
Beginning contingency reserves	179,682,100	195,127,090		**215,865,123**		
Ending contingency reserves	$ 195,127,090	$ 215,865,123		**$ 225,158,853**		

Enrollment – Covered Lives

The table below shows the number of covered lives by line of business and the number of participants for the flexible spending account (FLEX$TM) administration. Term life coverage for dependents may cover one or more children. Each dependent coverage is counted as one life. The term life totals can also include multiple coverages on the same individuals, including term life, line-of-duty, spouse, dependent, and AD&D (Accidental Death and Dismemberment). Each coverage is included in the count because they each represent a separate potential liability. Grand totals are not given because many of the same individuals are covered in more than one line of business.

Year	Medical	Dental	Long-term Disability	Term Life	Retiree Life	Death Benefit	Flex$
6/30/2010	169,310	126,513	37,097	103,060	16,433	98,002	10,072
6/30/2011	138,917	85,796	36,735	120,334	17,197	97,637	11,381
6/30/2012	132,205	84,958	36,339	101,172	19,919	89,165	9,157
6/30/2013	131,370	97,613	36,505	101,444	21,100	-	8,931
12/31/2013	134,682	100,956	36,492	101,596	21,115	-	8,598
12/31/2014	134,300	102,821	33,600	101,799	21,127	-	8,252

SIGNIFICANT EVENTS

COST REDUCTIONS: PEHP brought outside contracts in house and reduced staff to reduce costs. PEHP's administrative expenses were under budget by $1.90 million for the last budget year.

FEDERAL LEGISLATION: PEHP continues to implement changes required by the Patient Protection and Affordable Care Act. Changes required by this act will take effect up to six years in the future.

OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITIES: During the year ended December 31, 2014, PEHP paid $198,000 to fund the OPEB liability. PEHP's portion of the total liability as of December 31, 2014 is $2.92 million with actuarial value of assets equal to $2.45 million leaving an unfunded liability of $466 thousand.

LONG TERM DISABILITY MEDICAL INSURANCE BENEFIT LIABILITY: The Long Term Disability (LTD) program provides a medical insurance benefit for LTD benefit recipients who became eligible for LTD benefits after July 1, 1995 and prior to July 1, 2005. The total liability will correspondingly be adjusted annually based upon the actuarial valuation.

BUDGETS

Budgets are prepared for administrative expenses. For the budget years ended June 30, 2014 and June 30, 2013, the administrative expenses were under budget $1,913,817 and $1,124,750, respectively. PEHP was under budget in the salaries, wages and benefits and contractual services. This was due to continued cost cutting measures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

PEHP has no major capital asset activity and has issued no long-term debt.

PUBLIC EMPLOYEES HEALTH PROGRAM

Balance Sheets

December 31, 2014 and 2013

ASSETS	12/31/2014	12/31/2013
Cash and cash equivalents	**$ 65,189,647**	$ 65,974,289
Investments	**271,618,232**	262,497,884
Receivables:		
Premium and service fees	**40,072,620**	35,570,687
Investments	**2,032,511**	2,077,551
Total receivables	**42,105,131**	37,648,238
Prepaid expenses and other current assets	**14,660,608**	11,736,887
Furniture and equipment, net of accumulated depreciation of **$1,429,791** and $1,318,069 for the periods ended December 2014 and 2013, respectively	**277,048**	345,684
Total assets	**$ 393,850,666**	$ 378,202,982

LIABILITIES AND RESERVES FOR CLAIMS CONTINGENCY	12/31/2014	12/31/2013
Liabilities:		
Claims payable	**$ 18,283,319**	$ 18,814,765
Liability for claims incurred but not reported	**35,763,405**	33,048,658
Benefit reserves:		
Life insurance	**45,367,987**	45,515,284
Long-term disability claims reserves	**27,942,231**	23,592,732
Long-term disability medical premium reserves	**3,647,673**	3,791,376
Premiums payable	**372,578**	628,122
Unearned premiums	**2,307,894**	2,147,942
Accrued expenses	**10,619,969**	2,987,298
Taxes payable	**7,359**	-
Due to other agencies and administrative reserve	**6,552,420**	7,200,798
Securities lending liability	**17,826,978**	24,610,884
Total liabilities	**168,691,813**	162,337,859
Reserves for claims contingency	**225,158,853**	215,865,123
Total liabilities and reserves for claims contingency	**$ 393,850,666**	$ 378,202,982

The accompanying notes to the financial statements are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAM

Statements of Operations and Reserve Balances

For the Periods Ended December 31, 2014 and 2013

	12/31/2014	12/31/2013
Revenue:		
Premiums earned and service fees, net of refunds	**$ 540,904,127**	$ 266,253,605
Federal subsidy	**8,782,227**	5,838,269
Net investment income	**10,755,334**	4,588,862
Miscellaneous income	**33,327**	7,351
Total revenue	**560,475,015**	276,688,087
Insurance benefits:		
Claims	**504,586,690**	235,599,139
Change in unpaid claims and claims incurred but not reported	**6,241,674**	1,358,098
Policyholder experience dividends	**2,779,883**	2,870,036
Total insurance benefits	**513,608,247**	239,827,273
Administrative and other expenses:		
Salaries, wages and benefits	**20,638,980**	10,216,680
Administrative expenses	**7,097,079**	3,521,267
PPACA fees	**5,241,908**	-
Commissions	**2,128,863**	970,667
Other expenses	**2,466,208**	1,414,167
Total administrative and other expenses	**37,573,038**	16,122,781
Total benefits and expenses	**551,181,285**	255,950,054
Revenue over benefits and expenses	**9,293,730**	20,738,033
Beginning reserves for claims contingency	**215,865,123**	195,127,090
Ending reserves for claims contingency	**$ 225,158,853**	$ 215,865,123

The accompanying notes to the financial statements are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAM

Statements of Cash Flows

For the Periods Ended December 31, 2014 and 2013

	12/31/2014	12/31/2013
Cash flows from operating activities:		
Cash received from premiums	**$ 545,122,156**	$ 269,350,979
Cash paid for benefits	**(504,586,564)**	(235,571,500)
Cash paid to suppliers and employees	**(33,395,917)**	(17,861,068)
Policyholder experience dividends paid	**(2,779,883)**	(870,036)
Net cash provided by operating activities	**4,359,792**	15,048,375
Cash flows from investing activities:		
Interest received	**10,233,816**	4,820,196
Proceeds from maturities of sales of fixed income securities	**60,613,646**	44,749,413
Purchases of fixed income securities	**(75,951,345)**	(45,125,912)
Net cash provided (used) by investing activities	**(5,103,883)**	4,443,697
Cash flows from capital and related financing activities:		
Purchases of equipment	**(40,551)**	(32,813)
Net cash used by financing activities	**(40,551)**	(32,813)
Net increase (decrease) in cash and cash equivalents	**(784,642)**	19,459,259
Cash and cash equivalents at beginning of year	**65,974,289**	46,515,030
Cash and cash equivalents at end of year	**$ 65,189,647**	$ 65,974,289

The accompanying notes to the financial statements are an integral part of these statements

	12/31/2014	12/31/2013
Reconciliation of revenue over benefits and expenses to net cash provided by operating activities:		
Revenue over benefits and expenses	**$ 9,293,730**	$ 20,738,033
Adjustments to reconcile revenue over benefits and expenses to net cash provided by operating activities:		
Depreciation	**109,187**	53,381
Net investment income	**(10,755,334)**	(4,720,690)
Change in assets and liabilities:		
Premiums and service fees receivable	**(4,501,931)**	(3,771,380)
Prepaid expenses and other current assets	**(2,923,721)**	(2,545,243)
Claims payable	**(531,446)**	(303,958)
Liability for claims incurred but not reported	**2,714,747**	751,351
Benefit reserves	**4,058,499**	1,000,606
Due to other agencies	**(648,378)**	1,972,825
Premiums payable	**(255,544)**	234,327
Unearned premiums	**159,952**	1,759,476
Accrued expenses	**7,632,671**	(120,353)
Taxes payable	**7,360**	-
Net cash provided by operating activities	**$ 4,359,792**	$ 15,048,375

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Public Employees Health Program (the "Program") is a discrete component unit of the State of Utah created under the State of Utah Retirement Act to provide insurance services to public employees of the State of Utah. The Program also provides insurance services to employees of approximately 300 municipalities, school districts, and other public entities within the State of Utah. Under authority granted by the Retirement Act, the Program is administered by the Utah State Retirement Board (the "Board").

The Program provides insurance services predominately for agencies of the State of Utah. Effective with the year ended June 30, 2003, the State of Utah changed its accounting for the Program from an internal service fund to a discrete component unit of the State of Utah, in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 10, *Accounting for Financial Reporting for Risk Financing and Related Insurance Issues* as defined in that statement.

Insurance products offered by the Program include medical, dental, long-term disability, and life insurance. Public entities participating in the medical and dental programs are grouped into various risk pools for purposes of establishing rates, providing policyholder experience dividends, and retaining risk of loss from such insurance products. Under the Board's current policy, medical risk pools can elect to participate in the Program's internal reinsurance fund. This fund provides specific stop-loss insurance for individual claimants who incur claims in excess of amounts between $75,000 and $275,000 during the fiscal years ended December 31 2014 and 2013. The fund also provides aggregate stop-loss coverage at various levels. Management believes that it has recorded claims payable and benefit reserves adequate to meet all actuarially determined losses. The Program has reinsurance coverage for a life catastrophic occurrence in excess of $4,000,000, not to exceed $80,000,000 per year with a one-time reinstatement with additional premium. The Program has also entered into an excess medical reinsurance agreement which provides for the Program to retain medical losses on the first $1,250,000 of loss or losses on any one person insured during the term of the reinsurance agreement, after which the reinsurer will pay 100% of the amount which exceeds $1,250,000. The upper limit of the reinsurer's liability ranges from $2,000,000 to $5,000,000 during the lifetime of the person. The limit is dependent on the participating group's lifetime maximum. The retention per person will be reapplied to the Program each calendar year. During the periods ended December 31, 2014 and 2013, the Program paid **$1,074,361** and $471,353 respectively, in premiums under all reinsurance agreements. The Program also collects and passes through premiums for certain independent insurers.

The accounting policies of the Program conform to accounting principles generally accepted in the United States of America in all material respects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents reported on the Balance Sheets and the Statements of Cash Flows include a demand account at a commercial financial institution and funds held on deposit with Utah Retirement Systems. The demand account is covered by an overnight repurchase agreement with the financial institution. The Program considers all highly liquid debt instruments with a maturity of less than three months to be cash equivalents.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates which are particularly susceptible to change relate to the actuarial valuation of the claims incurred but not reported and benefit reserves. Actual results could differ from those estimates.

The program invests in various investment securities which, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the balance sheets.

Investments

Investments are comprised of U.S. government securities and money market funds invested in U.S. government securities, agency notes and mortgage-backed securities, and corporate notes and asset backed securities. These investments are carried at fair value determined on quoted market prices. Changes in the fair value of investments are recognized as investment income in the Statements of Operations.

Furniture and Equipment

Furniture and equipment are defined by the Program as assets with an initial cost of more than $5,000. Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives for furniture and equipment range from three to ten years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claim Liabilities and Benefit Reserves

The Program establishes claim liabilities and benefit reserves based on actuarial and other estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Long-term disability benefit reserves are reported using discount rates between **2.00% and 6.25%** to calculate the present value of estimated future cash payments as of December 31, 2014 and between 3.00% and 7.75% as of December 31, 2013. Because actual claim costs depend on such complex factors as inflation and changes in insurance benefits, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically by an actuary to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Inflation is implicit in the calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. Adjustments to claims liabilities and benefit reserves for changes in estimates are recorded in the statements of operations in the period for which the estimates are made.

Premium Revenue and Unearned Premiums

Premium revenue is recorded in the month in which coverage is provided. Premiums received in advance are recorded as unearned premiums.

Federal Income Taxes

The Program is exempt from the payment of Federal income taxes under Section 115 of the Internal Revenue Code.

Allowance for Doubtful Accounts

The Program considers all receivables collectible and writes off any bad debt in the period in which it was determined to be uncollectible.

Recently Issued Accounting Standards

We noted no accounting pronouncement in 2013 or 2014 that would have a significant affect on the Program.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change of Accounting Period

As required by the State of Utah, the Program changed fiscal year ends from June 30 to December 31 of each year. Accordingly, the comparative figures for the statements of operations and reserve balances, statements of cash flows, and related notes are for the six months from July 1, 2013 to December 31, 2013.

Reclassification

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

PPACA Fees

The Patient Protection and Affordable Care Act (PPACA) fees are fees that are charged to all insureds as a result of the PPACA. This line item from the Statements of Operations and Reserve Balances on page 11 represents the amount charged to the Program during the year directly related to the PPACA. These fees are new for 2014.

2. CASH AND INVESTMENTS

Listed below is a summary of the deposit and investment portfolios as of December 31, 2014 and 2013. Investing is governed by the prudent man rule in accordance with statutes of the State of Utah. All investments of the Program are considered to have been made in accordance with these governing statues.

Deposits

Deposits of the Program are carried at cost plus accrued interest. The carrying amount of the deposits, net of outstanding checks, is accounted for in the "Cash and Investments" balance sheet within "Cash and Cash Equivalents" and is **$(822,459)** and $(1,340,899) as of December 31, 2014 and 2013, respectively. The corresponding bank balance of the deposits was **$2,375,413** and $4,760,855 as of December 31, 2014 and 2013, respectively. The Program maintains non-interest bearing bank accounts at financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2014 the Program's cash deposit balances exceeded FDIC limits.

	12/31/2014	12/31/2013
Overnight repurchase agreements	**$ 29,142,242**	$ 23,377,580
Cash on deposit with Zions Bank	**(822,459)**	(1,340,896)
Cash on deposit with Northern Trust	**32,305,185**	39,613,829
Cash on deposit with (owed to) URS	**4,564,379**	4,323,476
Petty cash	**300**	300
Total	**$ 65,189,647**	$ 65,974,289

2. CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2014 and 2013, the overnight repurchase agreements of **$29,142,242** and $23,377,580, respectively are uninsured and are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Program's name. The deposits with Northern Trust and Dodge & Cox as of December 31, 2014 and 2013 of **$32,305,185** and $39,613,829, respectively, are uninsured and uncollateralized.

The carrying values of deposits and investments are reconciled to the amounts recorded in the balance sheets as of December 31, 2014 and 2013 as follows:

	12/31/2014	12/31/2013
Cash and equivalents	**$ 65,189,647**	$ 65,974,289
Investments	**271,618,232**	262,497,884
Total	**$ 336,807,879**	$ 328,472,173

Investments

The schedules below provide information about the credit risk, interest rate risk, and concentration of credit risk associated with the Program's investments as of December 31, 2014 and 2013, respectively.

		Investment Maturities (in Years) (in thousands)				
	Fair Value	Less Than 1	1-5	6-10	10-20	More Than 20
Investment type						
as of December 31, 2014:						
U.S. Treasuries	$ 17,570	$ 2,353	$ 15,217	$ -	$ -	$ -
U.S. Agencies	1,213	-	262	951	-	-
Corporate bonds	116,470	-	49,951	61,602	3,285	1,632
Gov't mortgage backed securities	86,517	-	1,658	5,077	37,604	42,178
Asset backed securities	21,351	-	18,133	344	2,403	470
Municipal bonds	10,670	1,241	9,253	177	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of December 31, 2014)	17,827	17,827	-	-	-	-
Total investments	$ 271,618	$ 21,420	$ 94,474	$ 68,151	$ 43,292	$ 44,280

2. CASH AND INVESTMENTS (Continued)

	Fair Value	Investment Maturities (in Years) (in thousands) Less Than 1	1-5	6-10	10-20	More Than 20
Investment type						
as of December 31, 2013:						
U.S. Treasuries	$ 10,060	$ 300	$ 9,760	$ -	$ -	$ -
U.S. Agencies	2,509	-	1,347	1,162	-	-
Corporate bonds	110,019	918	58,356	48,424	647	1,674
Gov't mortgage backed securities	90,141	-	1,423	2,573	29,242	56,903
Asset backed securities	14,407	-	3,814	7,529	3,064	-
Short-term investment funds	10,752	-	10,583	169	-	-
Municipal bonds		-	-	-	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of December 31, 2013)	24,610	24,610	-	-	-	-
Total investments	$ 262,498	$ 25,828	$ 85,283	$ 59,857	$ 32,953	$ 58,577

Interest Rate Risk

The Program manages its exposure to fair value loss arising from increasing interest rates by complying with the following policy:

For the PEHP fixed income portfolio, the investment manager's portfolio will have an effective duration between 75 – 125% of the effective duration of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price.

The Program compares an investment's effective duration against the Barclays U.S. Intermediate Government Credit Index.

The index range was 3.00 to 5.00 as of December 31, 2014 and 2013, respectively. As of December 31, 2014, no individual debt security was outside of the policy guidelines.

2. CASH AND INVESTMENTS (Continued)

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the Program's policy to limit its investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs) so the total investment portfolio maintains an "A" (S&P) or equivalent minimum rating. The Program's debt investments as of December 31, 2014 and 2013 were rated by S&P and/or an equivalent NRSRO and the ratings are presented below:

		Quality Ratings (000's)						
	Fair Value	AAA	AA	A	BBB	BB	CCC	NR
Investment type								
as of December 31, 2014:								
U.S. Treasuries	$ 17,570	$ -	$ 16,938	$ -	$ 631	$ -	$ -	$ -
U.S. Agencies	1,213	-	951	262	-	-	-	-
Corporate bonds	116,470	-	8,107	31,358	65,934	9,438	-	1,632
Gov't mortgage backed securities	86,517	-	86,517	-	-	-	-	-
Asset backed securities	21,351	19,751	785	344	-	-	470	-
Municipal bonds	10,670	-	-	10,670	-	-	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool	17,827	-	-	-	-	-	-	17,827
Total investments	$ 271,618	$ 19,751	$ 113,299	$ 42,635	$ 66,565	$ 9,438	$ 470	$ 19,459

		Quality Ratings Quality Ratings (000's)						
	Fair Value	AAA	AA	A	BBB	BB	B	NR
Investment type								
as of December 31, 2013:								
U.S. Treasuries	$ 10,059	$ 8,814	$ -	$ -	$ 1,245	$ -	$ -	$ -
U.S. Agencies	2,509	-	660	1,347	-	-	-	502
Corporate bonds	110,020	-	9,311	35,294	58,880	4,861	-	1,674
Gov't mortgage backed securities	90,141	-	85,285	-	-	-	-	4,856
Asset backed securities	14,407	5,005	637	405	-	-	509	7,851
Municipal bonds	10,752	-	-	10,744	-	-	-	8
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool	24,610	-	-	-	-	-	-	24,610
Total investments	$ 262,498	$ 13,819	$ 95,893	$ 47,790	$ 60,125	$ 4,861	$ 509	$ 39,501

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Program limits the amount that can be invested in any one issuer. The following limits apply to an Investment Manager's portfolio:

- U.S Government and Agency Securities – no restriction
- AAA/Aaa Securities – no more than 5% of an Investment Manager's assets at market with a single issuer
- AA-/Aa3 Securities or higher – no more than 4% of an Investment Manager's assets at market with a single issuer
- A-/A3 Securities or higher – no more than 3% of an Investment Manager's assets at market with a single issuer
- BBB-/Baa3 Securities or higher – no more than 2% of an Investment Manager's assets at market with a single issuer

If a security is downgraded within the investment grade categories listed above, the manager has 30 days to sell enough of the security to comply with the single issuer guideline applicable to the new rating.

No individual holding shall constitute more than 10% of the market value of the issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.

At the time of purchase, all issues shall be rated investment grade by at least two of the nationally recognized rating agencies. If the rating by the agencies is split rated, the lower rating will apply in determining investment grade status.

If a security is downgraded to below investment grade, the Investment Manager shall place the securities in a "basket" of securities downgraded below investment grade. The downgraded securities shall remain in the "basket" until the Investment Manager decides to sell them or until the securities are upgraded to investment grade. At no time shall downgraded securities placed in the basket exceed 5% of total portfolio value unless the basket is full when a security is downgraded. If the basket is full when a security is downgraded, the Investment Manager has 30 days to sell securities from the basket in order to bring it back to the 5% threshold. At no time should more than 1% of an Investment Manager's assets at market be with a single below investment grade issuer.

All investments are within Program limits.

2. CASH AND INVESTMENTS (Continued)

Securities Lending

The Program participates in a securities lending program as authorized by Board policy, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102% of the market value of the domestic securities on loan with a simultaneous agreement to return the collateral for the same securities in the future.

The Program's custodial agent is the agent for its securities lending program. Securities under loan are maintained in the Program's financial records and are classified in the preceding summary of investments. A corresponding liability is recorded for the market value of the collateral received. Under provision of GASB statement No. 28, collateral which cannot be pledged or sold is not recorded as investments nor is the related liability recorded in the financial statements. At December 31, 2014 and 2013 the Program did not have non-cash collateral.

As of December 31, 2014 and 2013, the Program had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan as of December 31, 2014 and 2013 were **$17,401,044** and $24,085,687 respectively, and the cash and non-cash collateral received for those securities on loan was **$17,826,976** and $24,610,884, respectively. Under the terms of the lending agreement, the Program is indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, the Program is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

All securities loaned can be terminated on demand by either the Program or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral to be available each business day and the dollar weighted average maturity of holding should not exceed 60 days. The relationship between the maturities of the short-term investment pool and the Program's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Program cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, it was not necessary to report the total income and expenses of the security lending.

3. CLAIMS PAYABLE AND BENEFIT RESERVES

Claims payable represent claims which have been reported to the Program as of the valuation date. A liability for the estimate of claims incurred but not reported to the Program as of the valuation date has also been recorded.

3. CLAIMS PAYABLE AND BENEFIT RESERVES (Continued)

The following schedule reflects changes in the total claims payable and benefit reserves for the periods ended December 31, 2014 and 2013:

	12/31/14	12/31/13
Total claims liabilities at beginning of year	**$ 124,762,815**	$ 123,314,816
Claims incurred (including change in benefit reserve)	**510,828,364**	237,019,499
Claims paid	**(504,586,564)**	(235,571,500)
Total claim liabilities at end of year	**$ 131,004,615**	$ 124,762,815

4. POLICYHOLDER EXPERIENCE DIVIDENDS

During the periods ended December 31, 2014 and 2013 the Board authorized experience dividends to participating agencies and members of **$2,779,883** and $2,870,036 from reserves for claims contingency accumulated by the Program through the end of the prior fiscal period. Of these **$0** and $2,000,000 were payable as of December 31, 2014 and 2013, respectively. For medical and dental plans, the board relies on actuarially determined ranges to determine the amount of claims contingency reserves available for experience dividends. For life and long-term disability plans, the Board considers claims contingency reserves of more than twelve months premiums to be available for experience dividends. Such dividends are granted at the discretion of the Board and are made in accordance with Title 49 of the Utah Code.

5. RETIREMENT PLANS

Defined Benefit Plan

Plan Description – The Program participates in the State and School Noncontributory Retirement System, and effective July 1, 2011, the State and School Contributory System. Senate Bill 63 created the Tier 2 Public Employees Contributory Retirement System for all new hires beginning employment in the retirement systems on or after July 1, 2011. These are cost-sharing multiple-employer defined benefit pension plans (the Plans) administered by Utah Retirement Systems (the Systems). The Systems are also governed by the Board. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and the State and School Noncontributory Retirement System. A copy of the report may be obtained

5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy – In the State and School Noncontributory Retirement System, the Program was required to contribute **22.19%** and 20.46% of their annual covered salary for the periods ended December 31, 2014 and 2013, respectively. In the Tier 2 Public Employee Contributory Retirement System, the Program was required to contribute **18.27%** and 16.75% of their annual covered salary for the periods ended December 31, 2014 and 2013, respectively. The contribution rates are actuarially determined. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Program's contributions to the Noncontributory Retirement System for the periods ended December 31, 2014 and 2013 were **$1,915,021** and $1,047,335, respectively. The Program's contributions to the Tier 2 Public Employee Contributory Retirement System for the periods ended December 31, 2014 and 2013 were **$222,507** and $86,842, respectively The contributions were equal to the required contributions for each period.

Defined Contribution Plans

Most of the Program's employees are also eligible to participate in a 401(k) defined contribution plan and a 457(b) deferred compensation plan. Both plans are administered by the Board. Employees may generally contribute as much as 100% of their before tax pay on an annual basis, subject to Federal limits. The Program is required to contribute 1.5% of all eligible employees' gross earnings to the 401(k) plan. The Program is also required to contribute an additional dollar-for-dollar match of employees' contributions up to 2% of their eligible gross earnings. The Program's contributions to the defined contribution plans totaled **$465,742** and $196,152 for the periods ended December 31, 2014 and 2013, respectively.

6. RELATED PARTY TRANSACTIONS

In addition to the retirement benefits provided by the Systems, as described in Note 6, the Program also makes payments to the Systems for certain rent and administrative expenses. Such expenses totaled **$6,253,851** and $2,093,666 during the periods ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the amount receivable (payable) from the Systems, net of the cash held by the Systems for the Program in the amount of **$4,564,379** and $4,323,476, is **$7,716,735** and $98,681, respectively.

7. COMMITMENTS AND CONTINGENCIES

The Program has been or may be named as a defendant in certain lawsuits. While the Program cannot predict the results of such actions, management believes that the liability, if any, resulting from such claims will not have a material effect on the Program's operations of financial position. Losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated claims liabilities.

8. CAPITAL ASSETS

The capital assets of the Program are:

12/31/2014

Equipment	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 106,167	$ -	$ -	$ 106,167
Computer equipment	647,005	4,765	2,230	649,540
Vehicles	256,795	40,551	-	297,346
Leasehold improvements	653,786	-	-	653,786
Total	$ 1,663,753	$ 45,316	$ 2,230	$ 1,706,839

Accumulated Depreciation	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$106,167	$ -	$ -	$ 106,167
Computer equipment	647,005	2,535	-	649,540
Vehicles	165,799	31,068	-	196,867
Leasehold improvements	399,098	78,119	-	477,217
Total	$1,318,069	$ 111,722	$ -	$ 1,429,791
Net capital assets				$ 277,048

12/31/2013

Equipment	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 106,167	$ -	$ -	$ 106,167
Computer equipment	650,013	-	3,008	647,005
Vehicles	247,944	8,851	-	256,795
Leasehold improvements	629,824	23,962	-	653,786
Total	$ 1,633,948	$ 32,813	$ 3,008	$ 1,663,753

Accumulated Depreciation	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 104,845	$ 1,322	$ -	$ 106,167
Computer equipment	650,013	-	3,008	647,005
Vehicles	152,799	13,000	-	165,799
Leasehold improvements	360,038	39,060	-	399,098
Total	$ 1,267,695	$ 53,382	$ 3,008	$ 1,318,069
Net capital assets				$ 345,684

8. CAPITAL ASSETS (Continued)

Depreciation expense for the periods ended December 31, 2014 and 2013 amounted to **$109,187** and $53,381, respectively.

9. COMPENSATED ABSENCES

The compensated absences liability represents the amount of unused leave to be paid to employees upon termination.

Program employees are granted leave in varying amounts, based on length of service. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the accompanying financial statements. The compensated absences liability is calculated based on the pay rates in effect at period end.

The compensated absences liability as of December 31, 2014 and 2013 was **$1,758,900** and $1,680,668, respectively.

10. NET INVESTMENT INCOME

Net investment income consisted of the following items for the periods ended December 31, 2014 and 2013:

	12/31/2014	12/31/2013
Interest income	**$ 10,356,147**	$ 5,343,815
Realized gains (losses), net	**221,444**	(746,923)
Unrealized gains (losses), net	**452,989**	127,959
Investment income	**11,030,580**	4,724,851
Less: investment expenses	**275,246**	135,989
Net investment income	**$ 10,755,334**	$ 4,588,862

11. REVIEW OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 12, 2015, which is the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2014 requiring recording or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information 10 Year Loss Development (Unaudited)

As noted in the “Other Matters” in the audit opinion, the Program is transitioning into the ten year loss development schedule as required supplementary information. The Program will begin with five years of data and build upon that data from year-to-year until a full ten years is presented in accordance with GASB No. 30, Risk Financing Omnibus an amendment of GASB Statement No. 10.

The following table compares the medical Program’s earned revenues net of reinsurance and investment income to related costs of losses and loss adjustment expenses, net of reinsurance, assumed by the Program. The table is defined as follows: (1) shows each year’s net earned premium, other operating revenues and interest income, (2) shows each year’s other operating expenses including overhead and loss adjustment expenses not allocable to specific claims, (3) shows incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred, (4) shows the cumulative amounts paid as of the end of successive years for each accident year, (5) shows the reestimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year for each of the accident years, (6) shows how each coverage year’s incurred losses increased or decreased as of the end of the successive years: this annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims, (7) compares the latest re-estimated incurred loss amounts to the amounts originally established. Information for the Program is only available in the format shown on the next page for the years presented.

PUBLIC EMPLOYEES HEALTH PROGRAM

10 Year Loss Development (Unaudited)

(In thousands)	2009-2010	2010-2011	2011-2012	2012-2013	6 Months ended 12/31/13	12/31/2014
(1) Required premiums, investment revenue, and interest income:						
Premiums earned	554,927	542,551	538,812	483,790	249,713	489,454
Premiums ceded	(542,593)	(514,064)	(552,778)	(472,838)	(235,065)	(492,310)
Net premiums earned	12,334	28,487	(13,966)	10,952	14,649	(2,856)
Interest income	9,555	5,695	7,498	2,496	2,848	7,349
(2) Unallocated expenses	5,246	6,925	5,172	4,942	5,846	8,863
(3) Estimated incurred losses and expenses, end of policy year:						
Incurred	501,591	472,218	478,176	443,285	214,766	467,419
Ceded						
Net incurred	501,591	472,218	478,176	443,285	214,766	467,419
(4) Paid (cumulative) as of:						
End of policy year	452,237	431,651	428,394	403,708	176,249	424,825
One year later	498,575	470,169	474,314	442,687	214,508	-
Two years later	498,333	469,956	474,260	444,028	-	-
Three years later	498,231	469,915	474,221	-	-	-
Four years later	498,215	469,716	-	-	-	-
Five years later	498,202	-	-	-	-	-
Six years later	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-
(5) Reestimated ceded loses and expense	498,202	469,716	474,221	444,028	214,587	467,419
(6) Reestimated incurred losses and expenses:						
End of policy year	501,591	472,218	478,176	443,285	214,766	467,419
One year later	498,744	470,218	474,369	443,799	214,587	-
Two years later	498,333	469,956	474,260	444,028	-	-
Three years later	498,231	469,915	474,221	-	-	-
Four years later	498,215	469,716	-	-	-	-
Five years later	498,202	-	-	-	-	-
Six years later	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and expenses from end of accident year	(3,389)	(2,502)	(3,955)	744	(179)	-